Japan

Japan is the top market for cloud services globally, ranked 1st in our analysis. The country boasts the most consistent and developed market for cloud services; additionally, there is substantial room for growth for U.S. cloud providers. Despite the existence of an established market with local competitors, domestic players do not seem to enjoy trade barrier-related advantages over foreign vendors. Further, Japan's commitment to universal broadband access for all households by the end of 2015 presents a uniquely connected market with near-total participation in ICT service needs. There should be caution and attention paid to potential privacy and data protection laws in the country as well as a decrease in consumer spending in 2014; however, Japan is still the top market for cloud services in 2015.

Overall Rank

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Japan has consistently been one of the top markets for growth in information and communications technology (ICT) and cloud services. Gartner predicts that by 2018 the Asia Pacific and Japan (APJ) region will account for $11.5 billion in total cloud services spending. As the leading cloud market in the APJ region, Japan is poised for continued growth through 2018.[1] The Asia Cloud Computing Association selected Japan as the top cloud market for the third consecutive year in their Cloud Readiness Index.[2] Japan ranks among the top Asian markets for almost all categories used in the rankings, including broadband quality and intellectual property protections.[3]

Analysts project that from 2013 to 2018, the cloud computing market will grow at a 9.7 percent annual rate.[4] Driving this estimate is the increasing adoption of cloud services by Japanese small- and medium-sized enterprises.[5] Expansion in Japan's cloud services market is the product of direct private and public investment in ICT infrastructure and a commitment to cloud services by the government. To date, Japan has developed a regulatory environment that preserves free flow of data while protecting privacy. The country has existing comprehensive intellectual property (IP) and cybercrime laws, protecting IP stored on clouds from theft and offering recourse in case of breaches.[6] Japan also joined the APEC Cross-Border Privacy Rules system in 2014. This system of voluntary but enforceable rules governing international transfers of data provides both strong privacy protections and greater flexibility to data controllers than more prescriptive regulatory approaches might. Further, the potential completion of the Trans-Pacific Partnership (TPP) in 2015 could further lower trade barriers in Japan and throughout the region.

Government regulations are just one of the means by which authorities have stimulated cloud services growth. Since 2009, Japan's government has strengthened cloud infrastructure through the "Digital Japan Creation Project" with annual rollouts of new government-led cloud services through 2015.[7] This project, the "Kasumigaseki Cloud," supports all government ICT systems and has been key in growing Japan's cloud market. This cloud has enabled public and private sector collaboration on processing of government documents and included increased online applications to encourage public use of mobile devices in accessing government functions.[8] Moreover, Japan's government has committed to ensuring all households have "very high speed" fiber broadband connections by the end of 2015, bringing the potential benefits of cloud services to every household in the country.[9] While the "Kasumigaseki Cloud" program and nationwide broadband initiative continue, Japan can be safely expected to look for new ways to use government investment to spur cloud adoption with the general public.

Corporate investors from the United States have been helpful in stimulating Japan's cloud-related infrastructure. For example, in August 2014, Google announced a partnership with five Asian ICT companies to construct a new fiber-optic cable system connecting the United States with two Japanese cities, Chikura and Shima.[10] Google's investment is meant to spur user growth for the Google Cloud Platform. The project is expected to be completed by the second quarter of 2016.

Five of the six "key vendors" of cloud services identified by industry watchers are U.S. companies –

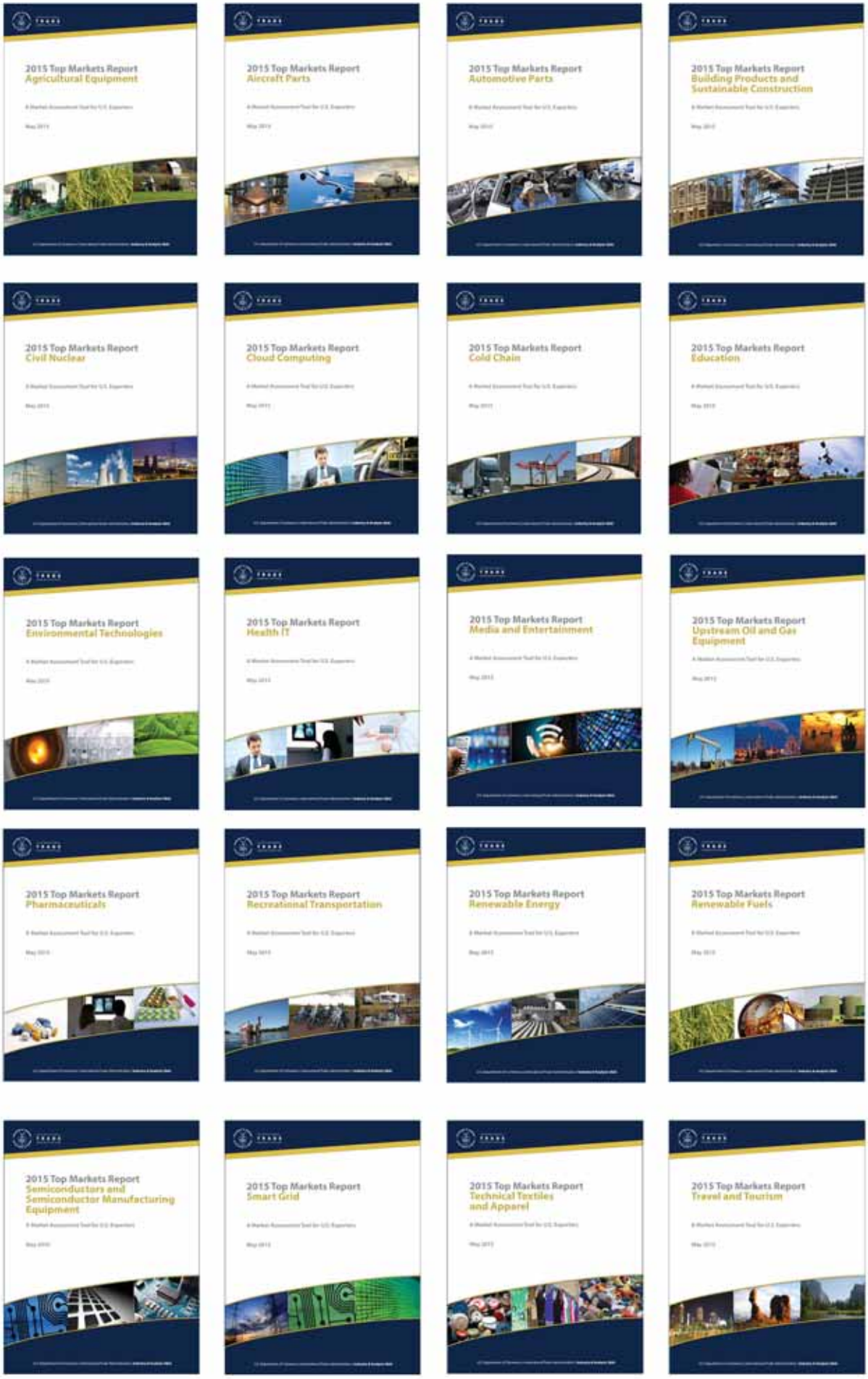
Amazon Web Services, Google, IBM, Microsoft, and Salesforce.[11] American companies have had strong historic success in the Japanese ICT market, particularly with recent cloud investments. There are currently no significant trade barriers that favor domestic cloud providers over foreign ones, making Japan a strong market for foreign involvement. In addition, by 2016 Japanese regulators will require the electronic submission of data from any scientific or health care clinical trials, a key market for U.S. cloud providers like Medidata and one offering opportunities for other vendors as well.[12]

However, it should be noted that competition in Japan's cloud computing market is intense. In addition to growing participation by Chinese ICT companies, Japan has strong domestic cloud firms, such as Fujitsu. In January 2015, this local ICT leader announced expansion plans for its existing data centers to meet increased demand related to Internet of Things services.[13] The announcement comes after a summer 2014 plan for Fujitsu to invest $2 billion between 2014 and 2017 to capture an increased market share in cloud computing.[14]

Competition is not the only relevant factor in Japan for cloud providers. The government has proposed amendments to its privacy law that involve restrictions on the cross-border transfer of personal data. The legislation would limit the transfer of personal data outside of Japan with three exceptions: consent by the data subject, a finding of adequacy of the destination country's privacy laws, or compliance with unspecified procedures ensuring alignment with Japanese requirements. While data protection is vital, such an approach could restrict even those cloud providers with strong safeguards in place for personal information stored on their servers, based on their location in jurisdictions not deemed to be adequate. The law is expected to pass the Diet before the summer of 2015.

In addition to the likely changes in Japan's regulatory framework, there are economic concerns of which cloud vendors should remain mindful. In January 2015, Microsoft announced a drop in profits, citing earnings shortfalls in Japan and China as a leading cause.[15] Also, new projections show declining corporate revenues in Japan due to faltering economic conditions attributable to decreased consumer spending. In turn, the spending decline in Japan is due to an increased local sales tax. This chain of events has, in the Microsoft example, already impacted earnings, and could potentially limit the market for U.S. cloud providers in 2015.[16]

Nevertheless, Japan offers substantial opportunities for cloud providers in 2015 and beyond. In spite of the proposed data privacy legislation and the economic climate representing potential barriers, the market is expected to remain the top country for U.S. cloud services.



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